

REPORT

DATE: September 14, 2006
TO: Energy and Environment Committee
FROM: Charlotte Pienkos, Government Affairs Analyst
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SUBJECT: Propositions 1E and 84

EXECUTIVE DIRECTOR'S APPROVAL:



RECOMMENDED ACTION:

Recommend a support position on Propositions 1E and 84 to the Regional Council.

SUMMARY:

Proposition 1E, the Disaster Preparedness and Flood Prevention Bond Act of 2006, and Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006, will appear on the November 7th ballot. If approved by a majority of voters, both measures would authorize the issuance of a combined total of \$9.5 billion in general obligation bonds for various water projects. Although the cost of the general obligation bonds is significant and General Fund monies otherwise available for transportation and housing must be used to repay them, a support position is recommended in light of SCAG's previous support for Proposition 50 in 2002 and the adopted Legislative Program, which calls for support of water quality and supply measures.

BACKGROUND:

Thirteen propositions have qualified for the November 7, 2006 ballot.¹ Two of them pertain to water issues under the jurisdiction of the Energy and Environment Committee (EEC). Proposition 1E, the Disaster Preparedness and Flood Prevention Bond Act of 2006, was introduced by Assembly Speaker Fabian Nunez (D-Los Angeles) as Assembly Bill 140 and was enacted on May 19th (Chapter 33, Statutes of 2006). Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006, appears on the ballot as the result of a voter initiative sponsored by a coalition of conservation groups led by The Nature Conservancy and the California Conservation Action Fund. If approved by a majority of voters, both measures would authorize the issuance of a combined total of \$9.5 billion in general obligation bonds for various water projects.

Origins and Allocations

Proposition 1E

The devastating flooding of New Orleans that occurred in September 2005 after the landfall of Hurricane Katrina and the bursting of the levees that keep the Mississippi River and Lake Pontchartrain from overflowing their banks caused California policy makers to reevaluate the safety of the extensive levee system in California's Central Valley. Assembly Speaker Nunez introduced AB 140 as the result of those

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deliberations. Upon its passage by the Legislature and signing by Governor Schwarzenegger, the Secretary of State certified it for the November 6th ballot as Proposition 1E.

Proposition 1E authorizes the issuance of almost \$4.1 billion in general obligation bonds to finance disaster preparedness and flood prevention projects in the following categories and amounts:

State Central Valley flood control system repairs and improvements; Delta levee repairs and maintenance.	\$3 billion
Flood control subventions for local projects outside the Central Valley.	\$500 million
Stormwater flood management grants for projects outside the Central Valley.	\$300 million
Flood protection corridors and bypasses; floodplain mapping.	\$290 million
TOTAL	\$4.090 billion

With \$3 billion set aside for Central Valley projects, Proposition 1E primarily benefits areas outside the SCAG region. However, proponents of Proposition 1E point out that Southern California has an interest in securing the 700-mile Delta levee system because a large portion of its water passes through the Delta. \$800 million is designated for flood control subventions and stormwater flood management outside the Central Valley.

Proposition 84

Proposition 84 is a voter initiative sponsored by a coalition of conservation groups led by The Nature Conservancy and the California Conservation Action Fund. According to the sponsors, Proposition 84 was launched because California's investment in infrastructure is not keeping pace with our population growth. Current funding for natural resources and environmental protection programs makes up less than 1% of the overall state budget. The goal of Proposition 84 is to provide "access to safe drinking water, better protection from floods, and opportunities to enjoy parks, natural landscapes and our rivers, lakes, beaches, bays and coastline."

Proposition 84 authorizes the issuance of almost \$5.4 billion in general obligation bonds for the following purposes (main categories are shown in **bold**):

Water quality	\$1.525 billion
Integrated regional water management.	\$1 billion
Safe drinking water.	\$380 million
Delta and agriculture water quality.	\$145 million
Protection of rivers, lakes and streams	\$928 million
Regional conservancies.	\$279 million
Other projects: public access, river parkways, urban stream restoration, California Conservation Corps.	\$189 million
Delta and coastal fisheries restoration.	\$180 million
Restoration of the San Joaquin River.	\$100 million
Restoration projects related to the Colorado River.	\$90 million
Stormwater pollution prevention.	\$90 million
Flood Control	\$800 million
State flood control projects: evaluation, system improvements, flood corridor program.	\$315 million
Flood control projects in the Delta.	\$275 million

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Local flood control subventions outside the Central Valley flood control system.	\$180 million
Floodplain mapping and assistance for local land use planning.	\$90 million
Sustainable communities and climate change reduction	\$580 million
Local and regional parks.	\$400 million
Urban water and energy conservation projects.	\$90 million
Incentives for conservation in local planning.	\$90 million
Protection of beaches, bays, and coastal waters	\$540 million
Protection of various coastal areas and watersheds.	\$360 million
Clean Beaches program.	\$90 million
California Ocean Protection Trust Fund: marine resources, sustainable fisheries, and marine wildlife conservation.	\$90 million
Parks and natural education facilities	\$500 million
State park system: acquisition, development, and restoration.	\$400 million
Nature education research facilities.	\$100 million
Forest and wildlife conservation	\$450 million
Wildlife habitat protection.	\$225 million
Forest conservation.	\$180 million
Protection of ranches, farms, and oak woodlands.	\$45 million
Statewide water planning	\$65 million
Planning for future water needs, water conveyance systems, and flood control projects.	\$65 million
TOTAL	\$5.388 billion

Areas of Overlap

If Proposition 1E and Proposition 84 were both to pass, they would authorize a combined total of \$4.59 billion for their areas of overlap: flood control in the Central Valley and Delta, subvention funding for local flood control projects, and floodplain mapping. While this is a significant amount, it falls far short of Department of Water Resource (DWR) estimates of the cost to repair and upgrade just the Central Valley flood control system—an amount between \$7 and \$12 billion.

Since 1996, voters have authorized about \$400 million in general obligation bonds specifically for flood management, and a bill passed earlier this year, AB 142 (Chapter 34, Statutes of 2006), authorized an additional \$500 million from the General Fund for emergency levee repairs. Even with these commitments of funds, there remains an enormous unmet funding need for flood management, making the overlap of funding in Propositions 1E and Proposition 84 less concerning than if the amount of overlap exceeded needed expenditures.

Previous Water Bond Measures

Since 1996, voters have approved total water bond authorizations of \$11.1 billion, of which \$953 million remains available for issuance. The last bond measures passed on water issues occurred in 2002 with Propositions 40 and 50. Categorically, most of the \$953 million in available bonding authority exists in three areas: water quality, water management, and the CALFED Bay-Delta program.

Support for the Propositions

Proposition 1E

Proposition 1E is supported by the League of California Cities, California Chamber of Commerce, California Taxpayers' Association, California Office of Emergency Services, California Environmental Protection Agency, State Building & Construction Trades Council, and the Orange County Business Council among others.

Proposition 84

Proposition 84 is supported by, among others, 1) water agencies, districts, and associations including the Association of California Water Agencies, Coachella Valley Water District, Inland Empire Utilities Agency, Las Virgenes Municipal Water District, Long Beach Water Department, and Metropolitan Water District of Southern California; 2) coastal and ocean interests including Heal the Bay and The Ocean Conservancy; 3) environmental and conservation groups including Audubon California, Ducks Unlimited, Huntington Beach Wetlands Conservancy, Natural Resources Defense Council, Orange County League of Conservation Voters, Palos Verdes Peninsula Land Conservancy, and Sierra Club California; 4) agricultural organizations, including Western Growers Association; 5) civic organizations including League of Women Voters of California; 6) museums and aquariums including Aquarium of the Pacific, Monterey Bay Aquarium, and Natural History Museum of Los Angeles County; 7) business organizations including Coachella Valley Economic Partnership, Los Angeles Area Chamber of Commerce, and Valley Industry & Commerce Association; 8) counties, councils of government, and organizations including Association of Bay Area Governments, Coachella Valley Association of Governments, League of California Cities, County of Los Angeles, County of Riverside, County of Ventura; and 8) elected officials including Governor Schwarzenegger and Senator Feinstein.

Opposition to the Propositions: The Cost of Bonding

There is little organized opposition to Proposition 1E. Proposition 84, however, is opposed by the Orange County Business Council (OCBC) for its failure to meet California's water infrastructure needs. According to OCBC, the measure does not allocate enough resources for water storage facilities and contains too many non-water related items.

The effect of the bonds on California's fiscal health warrants additional consideration. If Proposition 1E is approved by the voters, it will indebt the State of California to the amount of \$4.1 billion in principal or \$8 billion total over the life of the bond. Similarly, Proposition 84 will cost the state \$5.4 billion in principal or \$10.5 billion over the life of the loan. Both bonds will be repayable from General Funds, thereby making \$616 million unavailable every year for other uses of interest to SCAG, such as transportation infrastructure improvements or RHNA reimbursements. Furthermore, both Proposition 1E and Proposition 84 are general obligation bonds, not usable for operations and maintenance. The Legislative Analyst's Office states that these O & M costs are unknown, "but could be in the tens of millions of dollars per year." Those monies are not currently budgeted and would be payable from the General Fund, even as it absorbs debt repayments.

The effect of the passage of Proposition 1E and Proposition 84 on the state's debt-service ratio is dependent on whether other propositions pass. The Legislative Analyst's Office estimates that if all five general

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obligation bonds on the ballot pass, the state's debt will rise to 5.9 % of annual revenues in 2010-2011 and decline thereafter.

Position Recommendation

Although SCAG has no stated position on using general obligation bonds to finance the water system improvements envisioned in Propositions 1E and 84, the Regional Council has a history of supporting water bonds, as it did when it passed a resolution in support of Proposition 50 in 2002, which authorized \$3.44 billion in general obligation bonds for a variety of water purposes including desalination, coastal wetland protection, and watershed management.

Moreover, the adopted 2006 Legislative Program calls for SCAG to "support state and federal legislation and other government actions that encourage comprehensive planning and implementation of water quality and supply measures, such as those relating to stormwater, non-point source pollution, and total maximum daily loads...."

Staff recommends a support position for Proposition 1E and Proposition 84 consistent with the Regional Council's previous support for Proposition 50 and the adopted 2006 Legislative Program's direction to support water quality and supply measures.

FISCAL IMPACT:

Adopting the recommended position has no fiscal impact on SCAG.

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Legislative Constitutional Amendment
Proposition 1A: Transportation Investment Fund

Legislative Bond Act
Proposition 1B: Highway Safety, Traffic Reduction, Air Quality, Port Security Bond Act of 2006

Legislative Bond Act
Proposition 1C: Housing and Emergency Shelter Trust Fund Act of 2006.

Legislative Bond Act
Proposition 1D: Kindergarten-University Public Education Facilities Bond Act of 2006.

Legislative Bond Act
Proposition 1E: Disaster Preparedness and Flood Prevention Bond Act of 2006.

Initiative Statute
Proposition 83: Sexually Violent Predators, Punishment, Residence Restrictions and Monitoring.

Initiative Bond Act
Proposition 84: Water Quality, Safety and Supply, Flood Control, Natural Resource Protection, and Park Improvements.

Initiative Constitutional Amendment
Proposition 85: Waiting Period and Parental Notification before Termination of Minor's Pregnancy.

Initiative Constitutional Amendment and Statute
Proposition 86: Tax on Cigarettes.

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Initiative Constitutional Amendment and Statute

Proposition 87: Alternative Energy, Research, Production, Incentives, and Tax on California Oil.

Initiative Constitutional Amendment and Statute

Proposition 88: Education Funding, and Real Property Parcel Tax.

Initiative Statute

Proposition 89: Political Campaigns, Public Financing, Corporate Tax Increase, Contribution and Expenditure Limits.

Initiative Constitutional Amendment

Proposition 90: Government Acquisition and Regulation of Private Property.